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UNCLAS SECTION 01 OF 04 PRETORIA 003014

SIPDIS

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SUBJECT: ECONOMIC IMPORTANCE OF SOUTH AFRICAN TRADE AND INVESTMENT TO SADC AND THE REST OF SUB-SAHARAN AFRICA

REF: (A) PRETORIA 2977

(B) PRETORIA 2971

(U) This cable is sensitive but unclassified. Not for Internet distribution.

¶1. (SBU) Summary. When South Africa grows, so does Africa. A main challenge for South Africa is how it can use its engine of trade to benefit its own poor as well as the poor on the continent. The South African government regards trade and investment with the rest of Africa with increasing political and economic importance. South African trade with SADC has doubled from R16 billion in 1996 to R32 billion in 2004 while South African foreign direct investment (FDI) stock in Africa has increased from R4.7 billion to R15.8 billion during the same period. The dominant position of the South African economy in southern Africa has resulted in an imbalance in the country's trade relationship with sub-Saharan Africa and is regarded as one of the greatest challenges for trade and industrial integration in the region. South Africa's ten major African trading partners (including eight countries in SADC) account for 88% of all South African trade with sub-Saharan Africa. End summary.

The importance of South Africa to sub-Saharan Africa

¶2. (SBU) When South Africa grows, so does Africa. South Africa is a regional economic power, representing over 35% of sub-Saharan GDP. In 2003, 14% of South African exports went to other African countries. South Africa is the major foreign investor in every southern African country, and now the major foreign investor in the rest of sub-Saharan Africa. The Economist reports that South African firms have invested approximately $1 billion annually in other African countries. South Africa also serves as a base for many non-African companies wanting to operate in the region and is an increasingly an important training hub. An IMF study showed that an increase in South Africa's growth rate of 2-3 percentage points, if sustained, would result in a 1 point increase in SADC exports to South Africa, and an equal increase in SADC GDP.

¶3. (SBU) South Africa is a model for the rest of the continent on what can be accomplished through implementing good economic policies and developing strong institutions. At the same time, as the other cables in this series show, South Africa's second economy is an unfortunate match for the misery of millions living in least developed countries. A main challenge for South Africa is how it can use its engine of trade to benefit its own poor as well as the poor on the continent. Increasing its imports from the rest of sub-Saharan Africa would be one way to do this. While there are efforts in that direction as discussed below, much of the trade relationship is skewed in favor of South Africa's exports. More needs to be done by South Africa in removing trade barriers to regional trade.

¶4. (SBU) The South African government states that its global economic strategy can be viewed through the lens of an economically reinvigorated Africa, which forms part of the goal of the New Partnership for Africa's Development (NEPAD). It regards trade relations with African states of increasing political and economic importance to South Africa. Investors regard South Africa as the stepping-stone or gateway for trade and investment in sub-Saharan Africa.

¶5. (U) South African Revenue Service (SARS) data indicates that Africa's share of South Africa's export trade has grown significantly from 4% in 1991 to 13% in 2004. The Department of Trade and Industry expects that exports to Africa will continue to increase in the immediate future, as massive opportunities for South African capital are opening up with peace in Angola and the prospect of peace in the Democratic Republic of Congo (DRC). According to the South African Reserve Bank (SARB), the year-end stock of foreign direct investment in Africa from South Africa has increased from R4.7 billion in 1996 to R15.8 billion in 2004. (Data in this cable refers to continental Africa.)

¶6. (U) An article published in the African Business Journal states that few anticipated the rapidity with which South African corporates would exploit African trade and investment opportunities. The article offered four reasons for South Africa's rapid market penetration into sub-Saharan Africa. The first was the surplus of investment capital that South African corporations had after apartheid sanctions were lifted. The second was that the end of the Cold War convinced many African countries to accept market economics and relax barriers to trade. The third was the many opportunities to rehabilitate and modernize the Africa's deteriorating and outdated infrastructure. The fourth was the gap created by the developed world becoming increasingly disillusioned with Africa, but increasingly interested in eastern and central Europe as an investment destination.

The importance of South Africa in SACU

¶7. (SBU) South Africa's greatest economic influence resides in southern Africa. Within the Southern African Customs Union (SACU), South Africa has unimpeded market access to the Namibian, Botswana, Lesotho, and Swaziland markets under a common external tariff. Because of the size of South Africa's economy, SACU is the dominating economic force within the Southern African Development Community (SADC). In fact, SACU trade with SADC countries has doubled from R16 billion (put in dollars) in 1996 to R32 billion in 2004, accounting for 62% of SACU's total trade with Africa

¶8. (SBU) Reflecting the dominant market position of South Africa, SACU enjoys an overwhelming trade surplus with the rest of sub-Saharan Africa. Total SACU trade with sub-Saharan Africa in 2004 amounted to R36.7 billion in exports against R12.7 billion in imports. A trade surplus with SADC countries mostly in manufactured goods, intermediate inputs, and capital equipment. The trade imbalance is complemented by SACU outward investment in infrastructure, water and waste management, agribusiness, and mining. Paul Kalenga, senior researcher at the University of Cape Town, feels that one of the greatest challenges for trade and industrial integration in Southern Africa relates to the dominant position of the South African economy in southern Africa and that it does not exacerbate existing inequalities.

The importance of South Africa to SADC

¶9. (SBU) Implementation of the SADC Protocol on trade, which sets out the terms and conditions for the reduction and elimination of tariffs among members, began in 2000 and includes the establishment of a SADC free trade area by 2008. According to Paul Kalenga, the SADC Trade Protocol has contributed in reducing the trade imbalance by improved access to the South African market for SADC exports. SARS trade data indicates that exports by SADC countries to SACU have increased substantially from R2.6 billion in 2001 to R6.5 billion in 2004.

¶10. (SBU) According to a researcher at the Human Sciences Research Council in Durban, a key feature of the investment drive into sub-Saharan Africa has been its broad and diverse nature: all six primary sectors of the South African economy (mining, retail, construction/manufacturing, financial services, telecommunications, tourism) have worked hand in hand in securing South African investment throughout the continent. For example, major retailers such as Shoprite, Metro Cash and Carry and Pep stores as well as the food chains Nando's and Steers have opened their stores across the continent. An accompanying movement of South African property developers who build shopping centers to house these chains has mirrored this development. In addition, burgeoning business travel stemming from trade and investment from South African groups like MTN, Vodacom, M-Net, Shoprite, ABSA and the mining conglomerates, coupled with the growth of regional tourism, has created new opportunities for hotel interest like the Protea group which has expanded a line of hotels across Africa. South African Airways expanded throughout the continent, including purchasing Air Tanzania, to become the dominant air carrier in the region.

¶11. (SBU) According to Lumkile Mondi, Chief Economist at the Industrial Development Corporation (IDC), South Africa's growing penetration of the African economy has been characterized by the promotional role played by the South African government through the IDC. He explained that the IDC not only provides funding but also shares the risk by taking a direct stake in some projects. He said that in cases where the IDC has not been available, South African operatives have been keen to invest new capital in refurbishing and expanding local businesses and infrastructure through joint venture arrangements with African partners.

¶12. (U) SARS and SARB data for South Africa's ten key trading partners in Africa follow. Trade with these ten sub-Saharan African countries account for respectively 85% and 94% of all SACU exports and imports to and from sub-Saharan Africa. Nigeria and Kenya are the only major trading partners outside SADC. (Note: Technically the data is for SACU, but as South Africa

accounts for the vast majority of trade captured in the SACU statistics, it is a good proxy of South African trade.)

Zimbabwe

¶13. (U) Despite political instability, Zimbabwe remains South Africa's largest trading partner in Africa. Zimbabwe was the largest export destination for South African goods in 2004, accounting for R5.96 billion or 16% of all South African exports to Africa. Imports from Zimbabwe amounted to R2.76 billion in the same year. FDI stock from South Africa at the end of 2003 amounted to R2.03 billion.

Nigeria

¶14. (U) The South African government regards bilateral and multilateral relations with Nigeria as strategically important, particularly in a forum such as Nepad. South African companies have been successful in several sectors in Nigeria, namely the hospitality, financial services, communications and energy sectors. Nigeria accounted for R2.85 billion worth of South African exports, while R5.19 billion or 41% of all of South Africa's sub-Saharan African imports came from Nigeria in 2004. Nigeria is South Africa's only sub-Saharan trading partner in which the trade balance shows a deficit

Zambia

¶15. (U) Trade data indicates that trade and investment between South Africa and Zambia has increased substantially since 1993 as both countries are taking advantage of existing bilateral agreements. South Africa's third largest trading partner, Zambia imported goods worth R4.7 billion in 2004, while Zambian exports to South Africa amounted to almost R1 billion in 2004. Total year-end stock of South African FDI in Zambia at the end of 2003 amounted to R415 million.

Mozambique

¶16. (U) South African exporters regard Mozambique as a key African export destination. South African exports, R5.05 billion in 2004, accounted for 13.2% of its total exports to Africa. South African imports from Mozambique measured only R196 million in the same year. South African foreign direct investment stock into Mozambique amounted to R5.07 billion in December 2003, 32% of total South African FDI stock in Africa. According to Department of Trade and Industry officials, the skewed trade balance (heavily in South Africa's favor) can be attributed to Mozambique's under-development.

Angola

¶17. (SBU) Angola accounts for 9% of total South African trade with Africa. Exports to Angola amounted to R3.08 billion in 2004, while imports from Angola amounted to R1.68 billion. South African businesses view the post-war Angola as a huge construction site strewn with lucrative contracts to be signed. Government expects trade and investment to Angola to increase in future.

Kenya

¶18. (U) Like almost every African trading partner, the trade balance with Kenya is strongly in South Africa's favor. Exports to Kenya amounted to R2.89 billion in 2004 while imports were only R324 million.

Tanzania

¶19. (U) Exports totaled R2.19 billion in 2004 and imports R206 million. Tanzania and South Africa have signed a Memorandum Of Understanding (MOU) on trade and industry programmes and a general agreement on economic, scientific, technical and cultural co-operation.

Malawi

¶20. (U) The financial, retail, construction and telecommunication sectors are providing strong opportunities for investment in Malawi. In 2004, exports to Malawi totaled nearly R1.6 billion and imports were R429 million.

Mauritius

¶21. (U) After Mozambique, Mauritius is South Africa's favorite destination for foreign direct investment. The total South African FDI year-end stock in Mauritius amounted to R4.1 billion at the end of 2003. Exports to Mauritius amounted to R1.73

billion in 2004. (Note: part of these exports include South African fabric that goes into Mauritian apparel exported duty-free to the United States under AGOA.)

Democratic Republic of Congo

¶22. (U) Despite an unsettled time in the DRC, exports to the country were worth R1.33 billion and imports R44 million in 2004. With the prospect of peace, the DRC should provide massive opportunities for South African capital in future.

HARTLEY